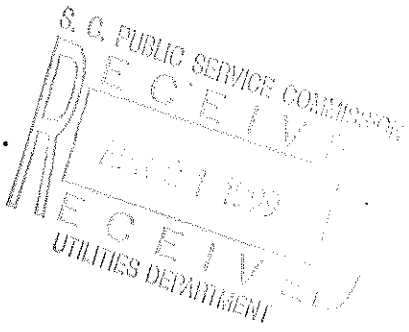

TESTIMONY OF R. H. HALL, JR.

FOR

DUKE ENERGY COMPANY

SCPSC DOCKET NO. 1999-003-E

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE ENERGY COMPANY.

A. My name is R. H. Hall, Jr., my business address is 400 South Tryon Street, Charlotte, North Carolina. I am General Manager, Fuels Procurement and Transportation for Duke Energy Company.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I attended the West Virginia Institute of Technology and graduated with a BS in Engineering in 1964. During college, I worked for a coal company and also for a mining equipment company. I joined the Company as a fuel trainee in the summer of 1964, progressed through various fuel purchasing positions and was appointed to my present position in March, 1978. I am a member of the North Carolina Coal Institute and the American Society of Mining, Metallurgical and Petroleum Engineers, Inc.

Q. MR. HALL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have testified in connection with the applications by the Company to adjust its electric rates and charges based solely on changes in the cost of fuel. My last testimony was presented in Docket No. 98-003-E.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to furnish information relating to our fuel purchasing and practices for the period April, 1998 - March, 1999. My testimony will also include a summary of our fuel purchases and fuel inventories.

Q. MR. HALL, CAN YOU PROVIDE A SUMMARY OF DUKE'S FUEL PROCUREMENT PRACTICES?

A. Yes. The Company continues to follow the same procurement practices discussed in previous testimony, and a summary of those practices is as follows:

1. Estimating Fuel Requirements. Fuel requirements are estimated annually based on input data from several departments, including Forecasting, System Planning, Nuclear Production, Fossil Production, Operating and Fuel Purchasing.

2. Inventory Requirements. Monthly and annual fuel inventory requirements for each station and the system are determined after considering the Company's purchasing and production requirements. Final review and approval are provided by Duke's Executive Committee.

3. Covering of Fuel Requirements. On a monthly and annual basis, reviews are made of existing contracts and projected consumption to determine the need for additional spot or contract supplies.

4. Qualified Suppliers. A list of qualified suppliers is maintained along with detailed historical records of their performance and capabilities as to quantity, quality, loading capacities, etc. Invitations to bid are distributed to all qualified suppliers to cover additional or future contract needs.

5. Bid Evaluation. Contracts are awarded after a complete evaluation cycle including an on-site visit to the source to determine the capabilities of the suppliers.

6. Spot Purchases. To supplement our fuel supply, entry into the spot market is made on a month-by-month basis.

7. Expediting. All orders are expedited (monitored) closely as to performance against schedule quantity, quality, and proper bills of lading, etc. This expediting data is used to prepare a monthly performance report on each supplier.

8. Quality Control. The Company samples and analyzes all coal received at each station. These analyses are monitored closely against contract specifications and serve as the basis for final price determinations. All coal is also weighed at each station to verify freight charges assessed by the railroads.

Q. YOUR TESTIMONY INCLUDES EXHIBITS. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes. The exhibits were either prepared by me or at my direction and under my supervision.

Q. WHAT IS SHOWN ON HALL EXHIBIT 1?

A. Hall Exhibit 1 is a statistical summary for each fuel category for the test period April, 1998 through March, 1999. The Exhibit includes the quantities consumed, quantities purchased, and the 12-month weighted average purchase price for each fuel. Due to the different components which make up the total cost of coal, coal statistics are further broken down to show the average cost f.o.b. mine, the transportation cost, and the delivered cost per million Btus.

Oil prices decreased $0.16 per gallon when compared to the previous 12-month period. This reduction was the result of a relatively mild winter which lowered oil demand during the heating season. This supply/demand imbalance kept prices lower than was forecasted.

Our consumption of natural gas was nearly three times the quantity for the previous year. Most of this consumption was at our Lincoln Combustion Turbine Station. We were able to take advantage of the depressed gas prices that existed from late

spring through September. The average price ($2.82/mcf)was 12% less than that for the previous twelve months.

The average price for uranium decreased $2.20 per pound. Excess western world inventories continue to influence prices, however this is not expected to continue. Present production is less than demand and inventories are being depleted. This may lead to firmer prices in future years.

The delivered cost of coal increased 2.5% during this period. The overall increase resulted from higher transportation costs which were 16% higher. The delivered cost per million Btus, which incorporates the quality of the coal, was $1.4107 (2% higher). The increased generation of electricity last year placed a tremendous burden on both the coal and railroad industries to meet consumption demands. This resulted in spot market prices for coal being 3% higher. However, prices for our contracts were down 3.3% as we continued to replace older contracts with short term market based contracts.

Spot purchases during this period were 5.9 million tons or 34% of the total tonnage. This was up 3%.

Q. WHAT IS HALL EXHIBIT 2?

A. This exhibit shows inventories for coal, oil and uranium (or uranium equivalents) at the beginning and end of this reporting period.

Oil inventories have increased over the period because we took advantage of prevailing oil prices in anticipation of our normal winter consumption. The mild temperatures resulted in less start-ups for the coal-fired plants and generation from the combustion turbines.

Uranium inventory is slightly higher due to material in process for scheduled reloads. This level should drop of the next period.

Coal inventories are significantly higher at the end of the period when compared to the beginning. Inventories were extremely low during the summer and early fall months due to coal demand and the railroad's inability to ship the increased volumes in a timely manner. We purchased large monthly volumes to replenish the inventory as well as to meet the forecasted winter burn. The forecasted burn did not materialize. In the four-month period of

November through February, our actual coal burn was 1.2 million tons less than the forecast. However, the increased inventory will work to our advantage because it was purchased at depressed market prices and we will not have to compete with other utilities as they begin building inventories during the months of April, May, and June for the summer load.

Q. WERE THERE ANY CHANGES TO DUKE'S COAL TRANSPORTATION RATES DURING THIS PERIOD?

A. Yes. All the rates for CSX origin coal increased 0.67% effective January 1, 1999. They are scheduled to increase by that same percentage effective July 1, 1999.

Q. MR. HALL, DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.